

After Rebound, Affirm Eyes Path to Profits



Affirm CEO, Max Levchin (left) and Klarna CEO, Sebastian Siemiatkowski (right). Photos via Getty.



By Mark Matousek

Share ▾

Jan 8, 2024, 6:00am PST

Comments by Alex Song and Mark Matousek

Affirm was among last year’s top stock market performers, as the company narrowed its losses and investors cheered deals with Amazon and Walmart that expanded the lender’s reach with shoppers. That marked a dramatic rebound from 2022, when rising interest rates upended Affirm’s business.

But while Affirm’s revenue growth has recently rebounded, the company remains unprofitable, and it is still figuring out the best way to lend money profitably while interest rates remain high. To that end, it’s been adjusting how it decides what loans and rates to offer shoppers so it can better account for how profitable the loan will be, in addition to the odds

Most Popular

The Big Read

a borrower will pay it back, a current employee said. That approach could result in Affirm offering fewer shoppers the zero-interest “buy now, pay later” loans that made the loans so popular with young people.

The Takeaway

- Affirm is placing a greater focus on profitable loans
- Klarna plans new AI shopping assistant
- “Buy now, pay later” lending came under pressure from higher rates

Affirm’s rethinking of its loan policies shows how the crop of “buy now, pay later” installment lenders —also including firms such as Klarna and Afterpay, now part of Block—are having to change their businesses to deal with a world dominated by high interest rates, after years of growth fueled by very low rates.

The low interest-rate regime meant the firms could borrow money very cheaply to fund their loans, allowing them to expand their businesses very quickly. Buy now, pay later loans, often with a zero interest rate, took off. Unlike credit cards, they cover only a single purchase. Affirm and its rivals typically charge merchants a fee for covering the cost of goods and services bought with one of these loans.

But things changed dramatically when the Federal Reserve started aggressively raising interest rates in 2022, making funding more expensive. Meanwhile, competition has increased as traditional payments giants, along with Apple, have introduced similar installment loans on purchases. In the year to June 2023, Affirm’s revenue growth slowed to 18% from 55% the previous year, also reflecting a broader e-commerce slowdown following the pandemic shopping boom.

Klarna, the biggest lender in the group, also experienced a slowdown, although not as dramatic as Affirm’s. Klarna has focused on making its app more of a shopping destination, with hopes that it can generate more affiliate marketing and advertising fees, paid by merchants. Already, it’s added artificial intelligence upgrades to its shopping app, including one that identifies items based on user photos. Now Klarna is developing an automated shopping assistant that will be able to find and purchase items based on a user’s instructions, according to two current Klarna managers. Klarna plans to roll out the feature this year, the managers said.

A Klarna spokesperson described the shopping assistant as “a future state of our product” and said, “We currently have no confirmed timeline of when it will roll out.”

Affirm has taken a different tack. Aside from cutting costs, including through layoffs, Affirm began skewing its lending more toward loans that charge interest. In addition to its “pay in four” loans, which charge zero interest on biweekly payments, Affirm also offers longer-term loans, both with and without interest. Interest-bearing loans already made up a majority of its business, and that share has been growing recently. Between July and September of last year, 74% of the loans Affirm made charged interest, compared to 64% during the same period in 2022.

Fame, Feud and Fortune:
Inside Billionaire
Alexandr Wang’s
Relentless Rise in
Silicon Valley
Jun 28, 2024

Exclusive

Eric Schmidt’s Split With
Advisor Reveals
Complex Deals With Ex-
Girlfriends
Jul 2, 2024

Exclusive

Character, a Chatbot
Pioneer, Mulls Deals
With Rivals Google and
Meta
Jul 1, 2024

The Top 5

The High-Tech Spas
Well-Pampered Techies
Love
Jun 29, 2024

Featured Partner

The Information 50 Database

The Information 50 Database

[Learn more](#)



Taken together, those efforts have helped Affirm narrow its losses, with the company reporting a net loss of \$172 million between July and September, from \$251 million a year earlier, as revenue growth rebounded to 37%. Affirm's stock price, which had plunged 90% in 2022, soared nearly 400% in 2023.

Affirm's shares are still trading slightly below their 2021 initial public offering price, however, and in a July email to employees reviewed by The Information, Affirm CEO Max Levchin listed profitable growth as one of his top priorities for the next 12 months. "We must continue to be fiscally responsible with shareholder capital: look for new revenue opportunities, find cost savings, increase operating leverage," he wrote in the email.

Affirm's increased focus on the profitability of its loans reflects how the company is trying to balance growing its lending with keeping its losses in check. The company started to test placing more of an emphasis on its interest and servicing costs when making lending decisions in early 2023, and plans to do so more widely this year, the current employee said. In some cases, borrowers who would previously have received interest-free loans will now have to pay interest. Affirm expects shoppers will accept its loan offers slightly less often as a result, the employee said. Affirm declined a request for comment.

Challenges Remain

Consumer demand for buy now, pay later loans has remained strong even as the pandemic-fueled e-commerce boom has faded, with higher inflation prompting shoppers to look for ways to break up purchases. In a November report, credit rating agency Moody's projected that the total value of transactions funded by buy now, pay later loans would exceed \$300 billion in 2023, compared to \$160 billion in 2021.

But it remains to be seen how many companies can turn that popularity into a sustainably profitable business. "Unless losses are curtailed and further equity contributions are secured, most major BNPL providers risk depleting their equity within the next two to three years," Moody's wrote in its November report. "The next years are therefore pivotal and BNPL players will have to demonstrate their ability to generate positive cash flows."

The report didn't name any companies as at a particularly high risk of running out of money, and the Klarna spokesperson noted that the company has been profitable for much of its history. The company ended September with \$2.5 billion in cash, up from \$1.7 billion a year earlier.

Buy now, pay later companies will also need to navigate mounting regulatory scrutiny. Installment lenders have pitched the loans as a consumer-friendly alternative to credit cards. But critics say they entice borrowers to take on more debt and spend beyond their means. The Consumer Financial Protection Bureau has indicated that it plans to

Consumer Financial Protection Bureau has indicated that it plans to regulate providers similarly to credit card companies, saying some of the loans have lacked consumer protections common for other financial products. And California has fined a handful of buy now, pay later providers for making loans without proper licensing.

Mark Matousek was a reporter for The Information covering fintech. You can reach him at markmatousek@theinformation.com, mmatousek@protonmail.com, or via Signal at +1 (847) 744-0804.

Conversation

2 comments



Paul Matousek

Post a comment

Post



Alex Song

follow

Mark Matousek In Moody's report regarding losses, are they referring to Affirm's loss on the loans they issue? or Affirm's quarterly loss as a business? Thanks.

reply like link 6 months ago report



Mark Matousek

Reporter
The Information

follow

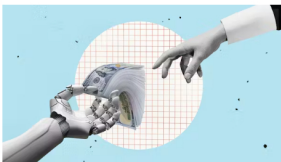
Alex Song The report is referring to the BNPL industry as a whole – that section doesn't mention any specific companies – and is referring to operating losses.

reply like link 6 months ago report

Recommended



To Succeed With AI.



The Cold. Hard



The Lending Cracks



Amazon. Google

to succeed. Finally,
Give up Control
By Sarah Hinkfuss · a month ago

the code, that
**Numbers of AI
Returns**
By Stephanie Palazzolo · a month ago

the growing stream
**That Could Halt
Creators' E-
Commerce Brands**
By Ann Gehan · 2 months ago

Amazon, Google
**Quietly Tamp Down
Generative AI
Expectations**
By Anissa Gardizy and
Aaron Holmes
4 months ago

The Information Subscriber Council

[Learn more >](#)

Virtusa
Perspectives with Virtusa

**Comcast NBCUniversal LIFT
Labs**
Partnering with startups at every stage!

TapOnIt
The next generation of SMS



About

Pro

Careers

Events

Brand Partnerships

Group Subscriptions

Become a Pro subscriber

Upgrade



[Terms](#) [Privacy](#) [Payment Policy](#) [Help & Support](#)

© 2013–2024 The Information. All Rights Reserved.